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Large-Scale, Capital-Intensive Development Projects in the Third World: Congressional Influence Over Multilateral Development Bank Lending

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LARGE-SCALE, CAPITAL-INTENSIVE DEVELOPMENT PROJECTS IN THE THIRD WORLD: CONGRESSIONAL INFLUENCE OVER MULTILATERAL DEVELOPMENT BANK LENDING

Do not attempt to do us any more good. Your good has done us too much harm already.

Egyptian Sheik Muhammed Abduh, London, 1884.[1]

I. INTRODUCTION

Egypt's Aswan High Dam is perhaps the most familiar example of a large-scale, capital-intensive Third World[2] development project gone awry. The benefits promised by the dam were impressive: to bring millions of acres of barren or underutilized land under cultivation, to improve farming in the Nile Delta through better drainage, to catalyze Egypt's ambitious industrial development plans through the generation of inexpensive electricity, to provide flood control, and to improve navigation.[3] Proponents claimed the economic benefits of the Aswan Project would repay its staggering price tag in just two years.[4]

Tragically, the Aswan High Dam has fallen short of these expectations.[5] For example, the dam failed to improve drainage in the Delta, thereby erasing the projected benefits to Delta farming.[6] In addition, actual electricity generation in any year is limited to a

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[1] *Quoted in* P.T. Bauer & John O'Sullivan, *Foreign Aid for What?*, COMMENTARY, Dec. 1978, at 41.

[2] The terms "Third World" and "developing countries" are used interchangeably throughout this Note to refer to nations that tend to receive—rather than contribute—development aid. These ill-defined expressions, along with "less developed countries" (LDCs) and the "North/South" distinction, are used elsewhere to describe a large number of nations in terms of GNP, per-capita income, and other dubious criteria. In reality, these nations are so diverse that they defy such overbroad categorization.

[3] JOHN WATERBURY, HYDROPOLITICS OF THE NILE VALLEY 118 (1979).

[4] *Id.*

[5] *Id.* at 118–19; *see also* RAYMOND F. MIKESELL & LARRY WILLIAMS, INTERNATIONAL BANKS AND THE ENVIRONMENT 100 (1992).

[6] *See* WATERBURY, *supra* note 3, at 119, 131–34 (discussing how the dam has actually aggravated existing drainage problems).

maximum of approximately seventy percent of the project's promised annual capacity and frequently is much lower.[7] Moreover, the dam continues to unleash a vast array of social, environmental, and economic problems on the Egyptian people.[8] Coastal erosion threatens the Nile Delta.[9] The dam reduces the flow of the Nile, deprives valley soils of the sediment that keeps them productive, and harms agriculture by increasing soil salinity.[10] The project also increases river scouring, which endangers bridges and embankments downstream and requires expensive remedies.[11] Furthermore, soaring disease rates accompanied the project's completion.[12]

These problems are not unique to the Aswan Dam Project. Large, high-technology development projects generally cost more money and cause more ancillary problems than smaller, more localized projects.[13] That the risks accompanying a grandiose project tend to be commensurate with high project expectations is not surprising. Unfortunately, because the promoters of large development projects, including development banks and government agencies, frequently overestimate project benefits and underestimate project costs, risks are not fully disclosed and many ill-fated projects are constructed that objectively should not have been built.[14]

The multilateral development banks (MDBs or "banks") finance a wide variety of development projects in the Third World. Some MDB loans are credited with assisting the struggling economies of

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[7] *Id.* at 147–49. Typical descriptions of the Aswan project's benefits refer to the dam's installed capacity for hydropower production. *See id.* This figure, however, will never be achieved because the water demands of power generation often conflict with those of irrigated agriculture, preventing full utilization of the hydroelectric turbines. *Id.*

[8] *See generally id.* at 119–53.

[9] *See infra* note 82.

[10] WATERBURY, *supra* note 3, at 120–34.

[11] *Id.* at 125–29.

[12] Paul R. Muldoon, *The International Law of Ecodevelopment: Emerging Norms for Development Assistance Agencies*, 22 TEX. INT'L L.J. 1, 4 (1987) (describing how schistosomiasis rates in the Nile Valley rose to 75% as a result of the Aswan project).

[13] *See* SUSAN GEORGE, A FATE WORSE THAN DEBT 156–57 (1988); Fred Pearce, *A Watershed for the Third World's Irrigators*, 114 NEW SCIENTIST 26, 26–27 (1987) (addressing the benefits of small-scale irrigation in place of problematic large schemes); MIKESELL & WILLIAMS, *supra* note 5, at 284–88.

[14] Edward Goldsmith & Nicholas Hildyard, *The Politics of Damming*, 14 ECOLOGIST 221, 231 (1984); MIKESELL & WILLIAMS, *supra* note 5, at 75, 80–86, 281 (discussing the flawed procedure for assessing costs and benefits that is typically performed for large multilateral development bank irrigation and hydroelectric power projects).

Third World nations or alleviating local poverty.[15] Unfortunately, the MDBs have a long record of financing large-scale, capital-intensive development projects that do just the opposite. Many of these projects have harmed the host country's economy and caused social and environmental chaos along the way.[16]

The U.S. Congress has some influence over the MDBs and has used this influence to alter bank lending policies in the past.[17] Congress, however, has not succeeded in convincing the MDBs to abandon their destructive large-scale lending practices. Congress has legislation in place that attempts, unsuccessfully, to influence the banks to adopt lending policies that are more beneficial to the people of the borrower nations.[18] To play a more effective role, however, Congress must begin to use its power of the purse to link U.S. MDB contributions to MDB compliance with this legislation.

This Note examines the problems associated with large-scale, capital-intensive MDB development projects in the Third World and analyzes the shortcomings of current U.S. legislation aimed at addressing these problems. Part II presents an overview of MDB structure and MDB policy regarding project size and nature. Part III analyzes the costs and benefits of large, capital-intensive development projects. Examples are offered showing how MDBs commonly misrepresent large project costs and benefits, making such projects risky alternatives for an already debt-burdened country.

Part IV presents examples of small-scale development alternatives that have succeeded in the developing world. Part V examines the role that Congress plays in establishing U.S. policy toward MDB development projects. Finally, Part VI assesses the effectiveness of U.S. policy initiatives and proposes specific measures that would encourage the MDBs to adopt more progressive development standards.

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[15] *See, e.g.*, MIKESELL & WILLIAMS, *supra* note 5, at 287–88 (providing examples of successful small-scale MDB loans in Latin America).

[16] Anne McIlroy, *Financing International Debacles*, OTTAWA CITIZEN, March 8, 1992, at E1, *available in* LEXIS, Nexis Library, Ottawa File. "Since the '70s, the [World] Bank has spent billions on projects that have turned into environmental, social, and fiscal catastrophes, leaving Third World countries deeply in debt with little to show for it." *Id.*

[17] *See* JONATHAN E. SANFORD, U.S. FOREIGN POLICY AND MULTILATERAL DEVELOPMENT BANKS 12–14 (1982).

[18] Congress recognizes the severe impact that many projects have had on the developing world, and has criticized the MDBs from time to time. In 1986, for example, the Senate Appropriations Committee asserted that "recent incidences of drought and famine, contagious disease and economic decline have been made worse rather than better by certain bank loans." S. REP. NO. 443, 99th Cong., 2d Sess. 31 (1986).

II. The Structure and Policy of the Multilateral Development Banks

A. *Multilateral Development Bank Organization*

The multilateral development banks were organized for the purpose of financing development in the less-developed countries.[19] There are four major MDBs: the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.[20] The MDBs fund development schemes through "hard" loans made at near-market interest rates, as well as "soft" (concessional) loans, which carry low interest or are interest-free.[21] Typically, hard loans are financed by money borrowed on the international capital market, while soft loans are financed primarily through contributions from the developed countries.[22]

The MDBs are independent, autonomous institutions that are under the stewardship of a president who does not represent any particular member country.[23] Each bank has a board of executive directors that is responsible for supervising bank operations and approving bank loans.[24] Member countries each appoint a representative who is vested with voting power in proportion to that nation's financial contributions and subscription to capital stock.[25] At the World Bank, these representatives, in turn, delegate power to the twelve executive directors, five of whom must represent the

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[19] Sanford, *supra* note 17, at 3; *see also, e.g.*, Articles of Agreement of the International Bank for Reconstruction and Development, Dec. 27, 1945, art. I (i), T.I.A.S. No. 1503, 2 U.N.T.S. 134 [hereinafter World Bank Articles of Agreement] (article I establishes the purpose of the World Bank). The largest and oldest MDB, the International Bank for Reconstruction and Development (World Bank), initially targeted much of its aid to economies disrupted by World War II. *See id.*

[20] Sanford, *supra* note 17, at 3. In July 1945, the Bretton Woods Conference established the World Bank and the International Monetary Fund in response to the international economic reorganization efforts that followed World War II. The three regional development banks were organized in the 1960s and have the same general structure and policies as the World Bank. *See id.* at 3–8, 14.

[21] *Id.* at 7. The World Bank has two affiliates: the International Finance Corporation and the International Development Association. The latter operates primarily out of the Bank's soft loan window. *Id.*

[22] *Id.*

[23] *Id.* at 8; *see also, e.g.*, World Bank Articles of Agreement, *supra* note 19, art. V, § 5 (c).

[24] Sanford, *supra* note 17, at 8; *see also, e.g.*, World Bank Articles of Agreement, *supra* note 19, art. V, § 4.

[25] Sanford, *supra* note 17, at 8; *see also, e.g.*, World Bank Articles of Agreement, *supra* note 19, art. V, §§ 2, 3.

bank's five largest shareholders.[26] Thus, because the United States has the largest or second largest voting share at each of the four MDBs, the potential for U.S. influence over bank policy is significant.[27]

B. *MDB Development Philosophy*

The MDBs generally pursue conservative development policies, using criteria such as creditworthiness and rates of economic return on capital to evaluate loan proposals.[28] Traditionally, the banks have sought short-term economic growth through capital formation activities,[29] and have placed great emphasis on large-scale, capital-intensive development projects such as hydroelectric dams, extensive agricultural schemes, and other infrastructure projects.[30]

This kind of big-ticket lending is commonplace. For example, the planning and implementation of the World Bank-financed Volta River hydroelectric project in Ghana spanned three decades.[31] Other examples include the Polonoroeste road construction and resettlement scheme in Brazil, which was projected to cost $1.6 billion,[32] and the multibillion dollar Indonesian "Transmigrasi" program, which initially planned to resettle approximately seventy million people within the country.[33]

Over the past two decades, the MDBs have focused increasingly on the direct alleviation of poverty.[34] This shift in lending policy is primarily attributable to the rejection of "trickle-down" theories of

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[26] World Bank Articles of Agreement, *supra* note 19, art. V, § 4 (b); Todd K. Marten, *Ending Tropical Deforestation: What is the Proper Role for the World Bank?*, 13 HARV. ENVTL. L. REV. 485, 490 (1989).

[27] Bruce M. Rich, *The Multilateral Development Banks, Environmental Policy, and the United States*, 12 ECOLOGY L.Q. 681, 718–19 & nn.254 & 257 (1985). Although there is no formal veto power at the banks, the U.S. vote is large enough (35%) to block action at the Inter-American Development Bank's Fund for Special Operations, where a two-thirds vote is required for project approval. *Id.*

[28] SANFORD, *supra* note 17, at 7; Marten, *supra* note 26, at 491.

[29] *See* Muldoon, *supra* note 12, at 2–5.

[30] *See, e.g.*, Rich, *supra* note 27, at 688; Muldoon, *supra* note 12, at 2, 9.

[31] *See* DAVID HART, THE VOLTA RIVER PROJECT: A CASE STUDY IN POLITICS AND TECHNOLOGY 21–32 (1980).

[32] Rich, *supra* note 27, at 694.

[33] Marcus Colchester, *Banking on Disaster: International Support for Transmigration*, 16 ECOLOGIST 61, 61 (1986). The Transmigrasi program has accounted for as much as six percent of Indonesia's national spending. *Id.* at 63.

[34] SANFORD, *supra* note 17, at 192, 199.

Third World economic development.[35] Nevertheless, the MDBs continue to favor large-scale, capital-intensive projects over smaller, more appropriate projects.[36]

In the 1980s, as a result of social, environmental, and economic problems caused by many of these large projects, the MDBs became the targets of much criticism from people concerned about environmental or developmental affairs.[37] In short, many large MDB-financed projects were not only failing to improve conditions in the host country, they were destroying the country's resources in the process. Led by the World Bank, the MDBs began to focus more attention on the consequences of their development projects.[38]

In 1989, the President of the World Bank, Barber B. Conable, announced what appeared to be a major change in World Bank development policy.[39] The World Bank seemed ready to acknowledge the need for projects to be designed around the concept of sustainable development—a concept that seeks to preserve existing economic capabilities.[40] The World Commission on Environment and Development defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."[41]

Conable stated that the Bank had increased lending in areas that are presumably geared towards sustainable development, such as forestry and population programs.[42] Moreover, Conable explicitly recognized the relationship between reducing poverty in the short

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[35] ROBERT L. AYRES, BANKING ON THE POOR 7–8 (1983); SANFORD, *supra* note 17, at 192. For an early discussion of the failures of "trickle down" development theory, see generally James P. Grant, *Development: The End of Trickle Down?*, FOREIGN POL'Y, Fall 1973, at 43.

[36] *See, e.g.*, Bruce M. Rich, *The Greening of the Development Banks: Rhetoric and Reality*, 19 ECOLOGIST 44, 44–45 (1989) (describing the Carajas iron ore project in Brazil); MIKESELL & WILLIAMS, *supra* note 5, at 286–87.

[37] *See, e.g.*, GEORGE, *supra* note 13, at 155–68.

[38] *See* Bruce M. Rich, *Do World Bank Loans Yield Deforested Zones?*, BUS. & SOC'Y REV., Fall 1990, at 10. In 1987, the World Bank adopted a series of environmental reforms designed to focus more attention on project side-effects. Rich argues that these reforms have not improved decision-making at the Bank. *Id.* at 14. *But see* Zygmunt J.B. Plater, *Multilateral Development Banks, Environmental Diseconomies, and International Reform Pressures on the Lending Process: The Example of Third World Dam-Building Projects*, 9 B.C. THIRD WORLD L.J. 169, 204 (1989) (environmental reform at the World Bank "appears to have led to practical results").

[39] Barber B. Conable, Development and the Environment: A Global Balance, Address Before the Tokyo Conference on the Global Environment and Human Response Toward Sustainable Development (Sept. 11, 1989), *in* 5 AM. U. J. INT'L L. & POL'Y 235 (1990).

[40] *Id. passim.*

[41] WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT, OUR COMMON FUTURE 43 (1987) [hereinafter OUR COMMON FUTURE].

[42] Conable, *supra* note 39, at 245.

term and protecting the environment and the resources that are necessary for long-term development.[43] Nevertheless, the World Bank apparently is not yet fully committed to serving the long-term interests of the Third World people, or to the concept of sustainable development.[44]

Comments in a confidential memorandum authored by the World Bank's chief economist, Lawrence Summers,[45] and leaked in February 1992, confirm that some shortsighted development policymakers still exist at that institution. In this memorandum, Summers argued that the Bank should encourage less developed nations, with their relatively clean environments, low wages, low living standards, and short life expectancies, to develop "dirty" industries because, in effect, the poor cannot afford to develop safely or efficiently.[46] Industries that affect air quality or pollute irrigation supplies, however, do not contribute to overall development if, as a result, workers become ill or crop yields fall. Unfortunately, although the World Bank apologized for Summers' comments,[47] the MDBs continue to approve enormous capital-intensive loans in the energy and agriculture sectors for projects that, like dirty industries, may be economically detrimental to the developing world.[48]

Regardless of policy statements, the MDBs may be institutionally and procedurally predisposed towards large-scale, capital-intensive projects.[49] Commentators criticize the World Bank for striving

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[43] *Id.* at 235–37. Many of the Bank's early detractors were environmentalists who were concerned about the severe environmental impacts of many MDB projects. A recent addition to this criticism is the realization that *social* and *economic* harms, especially those disproportionately affecting the poor and underrepresented, often accompany such environmental impacts. *See, e.g.*, MIKESELL & WILLIAMS, *supra* note 5, at 89–91. It was not until 1992, however, that the World Bank began to realize that many existing projects are unjustifiable even on *purely economic* terms. Mark Abley, *Bank Takes on Green Tinge*, CALGARY HERALD, May 17, 1992, at A10, *available in* LEXIS, Nexis Library, Calher File.

[44] *See, e.g.*, Rich, *supra* note 38, at 13–14.

[45] Memorandum from Lawrence H. Summers, World Bank Chief Economist (Dec. 12, 1991) (on file with the *Boston College Third World Law Journal*).

[46] *Id.* at 5. Summers remarked that "the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable." *Id.* This "logic" fails to recognize that people must rely on their local economy no matter how "underdeveloped" or "low-wage" it may be. Furthermore, Summers' argument implies that human discomfort, suffering, and death caused by severe pollution is somehow more tolerable in the Third World than in developed nations. This is particularly disturbing in light of the Third World's lack of adequate health care facilities.

[47] Michael Prowse, *Save Planet Earth From Economists*, FIN. TIMES, Feb. 10, 1992, at 26.

[48] *See, e.g.*, Mark Abley, *Breaking the Bank*, OTTAWA CITIZEN, April 5, 1992, at B6, *available in* LEXIS, Nexis Library, Ottawa File; Rich, *supra* note 38, at 13–14.

[49] PHILIPPE LEPRESTRE, THE WORLD BANK AND THE ENVIRONMENTAL CHALLENGE 66 (1989); MIKESELL & WILLIAMS, *supra* note 5, at 287; *see also* Rich, *supra* note 27, at 742.

to reach annual lending targets so that it can be in a position to request a higher budget for the following year.[50] This practice creates an incentive for Bank employees to make loans for large-scale, capital-intensive projects with higher price tags, rather than low-technology, less expensive alternatives that may be more appropriate.[51] By favoring big-ticket projects, World Bank staff can use their time more economically[52] while serving the Bank's ultimate imperative—namely, to keep the funds moving.[53]

Historically, large, capital-intensive projects have not fared well in the Third World.[54] Costly schemes not only place the host country at greater risk should the project falter, but also overwhelm the borrower with debt.[55] Quite frequently, the proposals for these projects contain very little information about long-term effects or externalities that would result from project implementation.[56] When project engineers or MDB staff prepare cost-benefit analyses, they are often seriously flawed or incomplete.[57] The failure of these analyses to include or accurately assess project costs other than initial monetary outlays—for example, increased rates of disease—often makes a disastrously diseconomic project appear desirable.[58] Although MDB critics have long recognized the magnitude of this problem, it was only recently that the World Bank reluctantly disclosed its own findings on the issue. A confidential internal review leaked by the World Bank in September 1992, reveals that an astounding 37.5% of development projects evaluated in 1991 were failures, a marked increase from the 15% failure rate ten years earlier.[59] The following section discusses two particularly trouble-

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[50] *See, e.g.*, STEPHEN HELLINGER ET AL., AID FOR JUST DEVELOPMENT 126–27 (1988); MIKESELL & WILLIAMS, *supra* note 5, at 287; SUSAN GEORGE, ILL FARES THE LAND 36 (1984).

[51] LEPRESTRE, *supra* note 49, at 66; *see also* HELLINGER ET AL., *supra* note 50, at 125–27.

[52] MIKESELL & WILLIAMS, *supra* note 5, at 287; LEPRESTRE, *supra* note 49, at 66; *see also* Rich, *supra* note 27, at 742.

[53] LEPRESTRE, *supra* note 49, at 66; *see also* Rich, *supra* note 38, at 14. Rich also argues that this imperative ultimately makes the Bank dependent on its larger borrowers, thereby compromising the Bank's autonomy. *See id.*

[54] *E.g.*, MIKESELL & WILLIAMS, *supra* note 5, at 284–85; *see also, e.g.*, GEORGE, *supra* note 13, at 156.

[55] *See* GEORGE, *supra* note 13, at 156. In fact, developing countries actually paid the World Bank more money than they received in a recent fiscal year. Abley, *supra* note 48, at B6.

[56] MIKESELL & WILLIAMS, *supra* note 5, at 50–52; *see, e.g.*, GEORGE, *supra* note 13, at 156–58.

[57] MIKESELL & WILLIAMS, *supra* note 5, at 281–84; LEPRESTRE, *supra* note 49, at 17, 19.

[58] MIKESELL & WILLIAMS, *supra* note 5, at 281; *see also* LEPRESTRE, *supra* note 49, at 19–21.

[59] World Bank Portfolio Management Task Force, Effective Implementation: Key to Development Impact ii (July 24, 1992) (confidential discussion draft, on file with the *Boston*

some kinds of large-scale MDB lending—agriculture modernization schemes and hydroelectric projects—and analyzes why such projects often impede, rather than promote, Third World development.

III. The Adverse Impacts of Large-Scale, Capital-Intensive MDB Projects on Third World Development

Traditional Third World development schemes have focused on the introduction of large-scale, capital-intensive projects, such as hydroelectric dams, to the developing country.[60] This strategy is based on two assumptions: first, that Third World development is best realized through rapid expansion of industry and infrastructure and promotion of modernized agriculture; and second, that the benefits of this process will "trickle down" to the vast majority of citizens who must watch from the sidelines.[61] Neither of these assumptions, however, has proven reliable.[62]

A. *Failure of Large-Scale, Capital-Intensive Projects to Benefit the General Population: Agricultural Modernization*

When the purported benefits of a large-scale MDB project outweigh its costs, the beneficiaries are often the few who already hold significant land or capital; the bulk of the population usually does not participate.[63] Ironically, poverty exists in many MDB member states as well as in the developing world.[64] Yet, instead of increasing funding for domestic social and poverty alleviation programs, member states choose to make MDB contributions that may ultimately finance these misdirected development projects. As a result, development aid that does not directly benefit the *neediest*

College Third World Law Journal). This internal review, headed by then World Bank vice-president Willi Wapenhans, is known as the Wapenhans Report. The report cites several reasons for the high failure rate including poor project design, management, and implementation. *Id.* at ii–iii. Significantly, among the major institution-wide changes urged by the report is the replacement of the Bank's emphasis on disbursing funds and promoting projects, with a new focus on *actual sustainable development impact. Id.* at 24–29.

[60] Muldoon, *supra* note 12, at 2, 9.

[61] *Id.* at 9.

[62] Sanford, *supra* note 17, at 192–99; Ayres, *supra* note 35, at 8; George, *supra* note 50, at 9–10; Paul Streeten et al., First Things First: Meeting Basic Human Needs in Developing Countries 8–11 (1981).

[63] *See* Bruce Rich, *The Emperor's New Clothes: The World Bank and Environmental Reform*, 7 World Pol'y J. 305, 320–21 (1989); George, *supra* note 50, at 11–12; Mark Fineman, *A Scheme to Harness India's Sacred Waters Brings Tempers to a Boil*, 21 Smithsonian 118, 128–32 (Nov. 1990).

[64] *See* Bauer & O'Sullivan, *supra* note 1, at 43.

Third World inhabitants is criticized because it merely "takes money from the poor in rich countries and gives it to the rich in poor countries."[65]

For example, in the context of a typical agricultural modernization scheme, the debtor government encourages wealthy farmers or corporations to buy up rich farmland for large-scale, mechanized cultivation that requires expensive fertilizers and pesticides.[66] To repay the massive loans that financed the scheme, the soil must be converted from staple crops to more profitable cash crops for export to the developed world.[67] Most of the profit, however, remains in the developed nations—in the hands of shipping and processing companies—while the fraction claimed by the developing state accrues to the wealthy farmer or corporation.[68] As a result, very little real development occurs because the Third World nation is compelled by its debt burden to substitute exportable cash crops for consumable food production.[69] Brazil illustrates this vicious circle as forty-two percent of its 1982 export earnings was used to service its debt.[70]

Furthermore, the switch to mechanized, labor-saving technology takes the common farmer off the land and creates few, if any, jobs in the process.[71] Many developed nations have a vast amount of arable land but relatively few farmers to cultivate it. Thus, these countries rely upon capital-intensive, "modern" agricultural techniques that emphasize yield per person.[72] Conversely, most developing nations have relatively small amounts of arable land but large rural populations. Therefore, developing nations are better off emphasizing yield per unit of land by utilizing the available labor.[73] In this scenario, "modern" agriculture is not only less valuable, but also leaves the rural poor unemployed.[74] This is precisely what has

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[65] *Id.; see also* AYRES, *supra* note 35, at 237.

[66] *See Tropical Forest Development Projects—Status of Environmental and Agricultural Research: Hearing Before the Subcomm. on Natural Resources, Agriculture Research, and Environment of the House Comm. on Science and Technology*, 98th Cong., 2d Sess. 17 (1984) (testimony of Brazilian agronomist Jose Lutzenberger).

[67] *See* Rich, *supra* note 27, at 689, 743; GEORGE, *supra* note 50, at 10.

[68] GEORGE, *supra* note 50, at 10.

[69] *See id.*; Rich, *supra* note 27, at 743.

[70] Rich, *supra* note 27, at 743.

[71] GEORGE, *supra* note 50, at 11; *see also* STREETEN ET AL., *supra* note 62, at 8–17 (discussing problems with traditional assumptions about the labor-development relationship in the context of meeting basic human needs).

[72] GEORGE, *supra* note 50, at 11.

[73] *See id.* at 11–12.

[74] *Id.* at 10–12, 50–51.

happened in Latin America where, as early as 1972, mechanization had eliminated 2.5 million agricultural jobs, according to a conservative United Nations Food and Agriculture Organization estimate.[75]

Those MDB officials who support the theory that the road to development is through large-scale, capital-intensive projects emphasize such benefits as inexpensive, abundant electricity from energy projects and tremendous gains in acreage under cultivation or per-farmer yield that can be realized from agricultural projects. These achievements are less desirable in most of the developing world, however, especially where poverty is pervasive and rural labor is plentiful.[76] Therefore, consideration must be given to how appropriate a proposed development scheme is in a particular setting.

Critics of large, capital-intensive projects, including many individuals and organizations concerned about alleviating poverty and environmental pressures, do not advocate its replacement by a program of unadulterated welfare that would sacrifice all economic growth.[77] Nor do they argue that all modern technology is inappropriate.[78] Rather, they claim that more emphasis should be placed on localized, scaled-down projects that are inherently less risky and appropriate technologies that are more easily maintained in a Third World environment.[79]

Significantly, in addition to the inability of many large-scale projects to benefit the general population as discussed above, the reliance on massive, expensive, high-technology projects has largely failed for another reason. In the race to fund the biggest or most modern project, the MDBs have approved schemes with faulty, insufficient, or non-existent cost-benefit analyses.[80] Many of these large-scale projects have proven to be monumental disasters.[81] The following subsection examines a second kind of popular, large-scale

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[75] K.C. Abercrombie, *Agricultural Mechanisation and Employment in Latin America*, 106 INT'L LAB. REV. 11, 29 (1972) (K.C. Abercrombie was the director of the United Nations Food and Agriculture Organization/Economic Commission for Latin America Joint Agriculture Division); *see also* GEORGE, *supra* note 50, at 29–30.

[76] *See* GEORGE, *supra* note 50, at 50–51.

[77] *See* STREETEN ET AL., *supra* note 62, at 4, 96–108.

[78] *See* GEORGE, *supra* note 13, at 156.

[79] MIKESELL & WILLIAMS, *supra* note 5, at 284–88; *see also* OUR COMMON FUTURE, *supra* note 41, at 77–78.

[80] *See* Plater, *supra* note 38, at 176–77; MIKESELL & WILLIAMS, *supra* note 5, at 281–84; GEORGE, *supra* note 13, at 156.

[81] *See* GEORGE, *supra* note 13, at 155–56.

MDB project that typically has done more economic harm than good in the Third World.

B. *Economic Risks of Large-Scale, Capital-Intensive MDB Projects: Hydroelectric Schemes*

Large-scale, capital-intensive projects funded by the MDBs have left a legacy of economic destruction in the Third World. Hydroelectric projects, which have been among the most popular big-ticket development programs at the banks, provide a stark example of the risks associated with large-scale project lending in the Third World.[82]

The MDBs have funded the construction of numerous dam-building projects in the developing world.[83] These projects have advertised significant benefits to the host country, including ample supplies of inexpensive electric power, improved navigation, flood control, and a regulated source of water for irrigation, industry, and drinking supplies.[84] Although those who design, build, and fund dams have had some success at predicting project benefits at start-up, their inability to foresee attendant reductions in these benefits once the dam is operational and their failure to adequately assess project costs are alarming.[85]

To begin with, the actual financial costs of hydroelectric projects typically exceed the initial budget.[86] As a result, cost overruns render cost-benefit analyses suspect even before the dam has been completed or the first megawatt has been produced.[87] More impor-

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[82] *See* LEPRESTRE, *supra* note 49, at 20–21 (briefly describing the World Bank's realization of the problems associated with inappropriate Third World development projects, especially large dams). Current research is uncovering additional long-term effects associated with these projects. For example, Egypt stands to lose hundreds of square miles of land to the Mediterranean by the year 2100 because Nile River sediments, which historically have replenished soil lost to the sea, are now trapped behind the infamous Aswan Dam. *Will the Nile Delta Sink Into the Sea?*, NAT'L GEOGRAPHIC, Feb. 1992 (*Geographica* section).

[83] *See, e.g.*, Rich, *supra* note 36, at 47–50 (India's Narmada Valley project); Nayna Jhaveri, *The Three Gorges Debacle*, 18 ECOLOGIST 56, 56 (1988) (the Three Gorges project on the Yangtze River); Rich, *supra* note 27, at 701–02 & nn.142–45.

[84] *E.g.*, WATERBURY, *supra* note 3, at 118; Jhaveri, *supra* note 83, at 56.

[85] For a more detailed examination of the unanticipated environmental costs that are often associated with hydroelectric dams, see Plater, *supra* note 38, at 176–89. Although these costs are categorized as "environmental" costs, many are also economic costs that have significant effects on the host country's ability to develop. *See generally* EDWARD GOLDSMITH & NICHOLAS HILDYARD, THE SOCIAL AND ENVIRONMENTAL EFFECTS OF LARGE DAMS (1984).

[86] *See* Plater, *supra* note 38, at 177.

[87] McIlroy, *supra* note 16, at E1 (noting that the $11 billion Narmada project under construction in India was over budget in the first stage).

tantly, these projects often create more devastating economic costs that rarely are accounted for in cost-benefit analyses.[88]

For example, many Third World dam projects provide water for intensive irrigation schemes that enable farmers to take full advantage of the soil by growing more water-dependent crops and by planting more often.[89] River water contains traces of salts that are leached naturally from the rocks and soils of the river basin.[90] When farmers employ modern, intensive irrigation techniques, especially in the hot climates typical of the Third World, the river water cycles through the soil much more often than before, causing salts to accumulate in the soil through evaporation.[91] In addition, the salinization process is aggravated when soils become waterlogged through year-round, intensive irrigation.[92] Salinization has ruined some of the Third World's most productive soils which, absent the dam and its constant irrigation supply, would have made economic contributions.[93] Thus, hydroelectric project cost-benefit analyses must account for this cost.

Most dams are built upstream of productive farmlands, which are heavily dependent on the river valley's rich, alluvial soil that has been laid down during seasonal floods over the years.[94] After completion of the dam, however, the nutrient-rich suspended sediments previously deposited on the valley floor become trapped in the reservoir.[95] In addition, the dam regulates the river's flow, thereby eliminating the seasonal floods that delivered the nutrients to the valley soils.[96] The disruption of the flooding cycle results in downstream farmland becoming progressively less productive with time, yet MDB cost-benefit analyses do not include this economic cost.[97]

Many hydroelectric dams also harm productive fisheries that depend on the river's rich nutrients.[98] These fisheries may be lo-

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[88] *See, e.g.*, LEPRESTRE, *supra* note 49, at 20; MIKESELL & WILLIAMS, *supra* note 5, at 281–84.

[89] *See, e.g.*, WATERBURY, *supra* note 3, at 118 (listing perennial irrigation as a benefit of the Aswan High Dam).

[90] *Briefing Document: The Social and Environmental Effects of Large Dams*, 14 ECOLOGIST 1, 11 (1984) [hereinafter *Briefing Document*].

[91] Plater, *supra* note 38, at 183.

[92] *Briefing Document*, *supra* note 90, at 11.

[93] *See* Muldoon, *supra* note 12, at 4; Plater, *supra* note 38, at 183.

[94] *See, e.g.*, WATERBURY, *supra* note 3, at 129–31.

[95] *Id.*

[96] Plater, *supra* note 38, at 181–82.

[97] GEORGE, *supra* note 13, at 156.

[98] *Briefing Document*, *supra* note 90, at 6–7. For an interesting counter-example, see HART,

cated near the river's mouth, in the delta, or throughout the downstream reaches and can be decimated if the river's flow decreases, allowing saltwater intrusion into the lower reaches, or if nutrients are trapped behind a dam.[99] Other changes in water quality produced by dams can result in fish kills as well.[100]

Riverborne disease is yet another economic side-effect of many large dam projects. When a river is impounded or used for irrigation, large areas of still water form and create ideal conditions for the spread of diseases such as schistosomiasis, malaria, and onchocerciasis (river blindness).[101] It is not uncommon for these diseases to afflict three-fourths of the population in the project area.[102] As a result, the cost of providing health care to the sick and the related costs associated with reduced worker productivity must be included in cost-benefit analyses.[103] For example, even during the early years of Egypt's Aswan Dam Project, when the schistosomiasis infection rate was still as low as forty percent, annual lost productivity costs associated with the disease already consumed more than one-third of the dam's overinflated projected economic benefits.[104]

Dams can result in numerous other costs in the form of lost economic opportunities. For example, countries can lose potential or existing revenue sources when mineral deposits, productive soils, or popular tourist attractions such as archaeological treasures are inundated by a reservoir.[105] To make matters worse, many large dams have caused serious social displacement problems that can exacerbate the project's negative economic effects.[106]

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supra note 31, at 88–89, describing how Ghana's Akosombo Dam destroyed small fisheries downstream but created a more successful fishing industry in its reservoir.

[99] Jhaveri, *supra* note 83, at 59–60.

[100] *See, e.g.*, Nicholas Hildyard, *Adios Amazonia? A Report From the Altimira Gathering*, 19 ECOLOGIST 53, 55 (1989) (reservoir drowned uncleared forest leading to eutrophication); Plater, *supra* note 38, at 181 (changes in downstream temperature; increases in downstream nitrogen levels).

[101] HART, *supra* note 31, at 90–94; Muldoon, *supra* note 12, at 4; Jhaveri, *supra* note 83, at 60–61; Rich, *supra* note 27, at 702.

[102] HART, *supra* note 31, at 90–95 (after the Volta River was dammed, typical infection rates rose to 75% for onchocerciasis and 80% for schistosomiasis); Muldoon, *supra* note 12, at 4 (schistosomiasis infection rate in Egypt rose from 21% to 75% following completion of the Aswan Dam).

[103] Lost productivity costs alone are estimated to have approached $7 million per year (1975 dollars) near Ghana's Volta River Project. HART, *supra* note 31, at 97.

[104] *See* WATERBURY, *supra* note 3, at 118, 146.

[105] *See* Plater, *supra* note 38, at 184–85.

[106] *See, e.g.*, James C.N. Paul, *International Development Agencies, Human Rights, and Humane Development Projects*, 17 DENV. J. INT'L L. & POL'Y 67, 91–95 (1988). Large dams often require the resettlement of entire villages and can displace millions of people. *See* Philip M. Fearnside,

Many hydroelectric dam proposals misrepresent project benefits as well.[107] The useful life of a dam is usually determined by how long it takes sediments that are carried by the river to fill up the reservoir, thereby eliminating the project's storage capacity.[108] Unfortunately, forecasting project life from historic sedimentation rates is problematic,[109] and if the rate of sedimentation is underestimated, the anticipated useful life of the dam will be misleadingly high.[110] This problem is compounded where dams have attracted new activities that accelerate erosion, such as logging or farming, upstream from the project site.[111] In addition, project planners have misrepresented the value of irrigation schemes associated with dams by overestimating the amount or the quality of arable land in the project area.[112]

Furthermore, if the area flooded by the dam's reservoir is composed of porous material, the river will lose much of its discharge through seepage.[113] In hot climates, river discharge is significantly reduced through evaporation as well, because the reservoir has substantially increased the surface area of the river system.[114] If flow is reduced, the benefits from electricity production, improved navigation, and increased irrigation, industrial, and drinking water supplies will be lower than projected.[115]

Finally, large-scale, capital-intensive hydroelectric projects are even less desirable when their benefits accrue to only a small seg-

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Resettlement Plans for China's Three Gorges Dam, in DAMMING THE THREE GORGES: WHAT DAM-BUILDERS DON'T WANT YOU TO KNOW 36 (Grainne Ryder, ed. (for Probe International) 1990) (Three Gorges project would displace as many as 1,200,000 people). The feelings of indigenous people rarely are considered and the resettlement programs promised by development agencies or local governments frequently fail, leaving the displaced people in poverty. *See id.* at 46, 50–55; HART, *supra* note 31, at 87–88; *Briefing Document, supra* note 90, at 2–3.

[107] LEPRESTRE, *supra* note 49, at 20.

[108] Plater, *supra* note 38, at 186–87.

[109] *See id.*

[110] MIKESELL & WILLIAMS, *supra* note 5, at 75. It is not uncommon to see a dam's storage capacity, and hence its useful life, fall short of engineers' predictions because the rate of sedimentation was underestimated, especially in the tropics. *Briefing Document, supra* note 90, at 16. The capacity of Colombia's Anchicaya Dam decreased by 80% in just 20 years, owing to sedimentation. LEPRESTRE, *supra* note 49, at 20. An even more distressing example is China's useless Laoying Reservoir, which filled with sediment before the dam was finished. *Briefing Document, supra* note 90, at 16.

[111] *See* Jhaveri, *supra* note 83, at 58.

[112] *See* Plater, *supra* note 38, at 183.

[113] *See* Goldsmith & Hildyard, *supra* note 14, at 226.

[114] *See id.*

[115] *See* WATERBURY, *supra* note 3, at 118–22. Reduced river flow also can increase project costs by having serious consequences on all pre-project economic uses of the river downstream from the dam. *See generally* Jhaveri, *supra* note 83.

ment of the population, as discussed above in the context of agricultural modernization schemes. The MDBs funded the construction of many large dams to satisfy the electricity demands of foreign entities or the domestic industrial elite.[116] A case in point is Ghana's Volta River Project, which received World Bank financing.[117] Foreigners, principally the United States government and the Kaiser Aluminum and Chemical Corporation, promoted this hydroelectric station.[118] Their respective goals were to gain political influence in the fledgling African nations and to procure a large source of cheap electricity for an aluminum plant.[119] The Ghanaian leader, Kwame Nkrumah, adopted the project in the belief that electrification would help Ghana develop and industrialize.[120]

The anticipated domestic industrialization, however, did not occur.[121] Other expected benefits, including irrigation and lake transport schemes, have not fully materialized, in part because they were inappropriate to begin with.[122] In addition, soaring disease rates[123] and an expensive and largely unsuccessful resettlement scheme for the 80,000 villagers displaced by the dam have added to project costs.[124] In fact, the Ghanaian people have borne the costs of the Volta project while receiving very little, if any, benefit.[125] Conversely, cheap electricity has made the project a success for the U.S. government and Kaiser Aluminum.[126]

Thus, large dams represent huge capital and technological investments.[127] The problems described above make dams an extremely risky path to development for the Third World. If donor governments required the MDBs to generate comprehensive cost-

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[116] Edward Goldsmith & Nicholas Hildyard, *The Myth of the Benign Superdam*, 14 ECOLOGIST 217, 217–18 (1984).

[117] *See generally* HART, *supra* note 31. Although the World Bank supported the dam and provided a $47 million loan at project start-up, Hart argues that Bank involvement at least helped Ghana to secure more favorable terms—for example, the price of electricity. *Id.* at 49–50, 54.

[118] *See id.* at 103–06.

[119] *Id.* at 103.

[120] *Id.*

[121] *Id.* at 104.

[122] *Id.* at 99–101.

[123] *See supra* notes 101–104 and accompanying text.

[124] HART, *supra* note 31, at 87–88, 104.

[125] *See id.* at 103–06.

[126] *See id.* at 103.

[127] Cost estimates for the mammoth World Bank-supported Three Gorges Dam in China range from $4 billion to $16 billion. *See* Jhaveri, *supra* note 83, at 56. For the Tucurui Dam in Brazil, construction costs alone are expected to reach $8 billion. GEORGE, *supra* note 13, at 156.

benefit analyses for these projects—analyses that accounted for all social, environmental, and long-term economic effects—developing countries would gain a better understanding of their development alternatives and the attendant economic risks. Many existing dams have a negative net impact on their region's economy and rationally would not have been built if their costs and benefits had been accurately assessed.[128]

IV. The Advantages of Small-Scale, Light-Capital Development Projects

Quite frequently, the most appropriate development schemes for Third World countries are relatively small-scale and more labor-intensive. Although every nation needs energy and most seek to improve agricultural output, large-scale hydroelectric dams are not often the answer to these needs. In some cases, several small dams that account for specific local needs would be more appropriate.[129]

In addition, smaller projects frequently can involve and benefit the general population in a way that many of the banks' large-scale, capital-intensive projects have not. The more expensive and technologically advanced an agricultural project is, for example, the less likely it is to allow for participation from common farmers.[130] Unfortunately, even where ample evidence demonstrates that the general population would benefit more from a smaller, lower-technology project, internal pressures within the banks, as discussed above, may still favor larger schemes.[131]

A World Bank-financed development project illustrates this bias:

> Comparative cost/income calculations showed in 1974, for example, that for oil palm development schemes in Nigeria, if "based on village processing units, growers' family incomes would be approximately 50 percent higher and over-all investment in transport and processing facilities 75 percent lower than in a large-scale industrial scheme." The World Bank nonetheless made loans in 1975 and 1978 totaling $95 million—for large-scale, centralized industrial oil palm development in Nigeria.[132]

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[128] *See* Plater, *supra* note 38, at 189.

[129] *See* George, *supra* note 13, at 156.

[130] *See* George, *supra* note 50, at 10–12, 50–51.

[131] *Id.* at 35–36.

[132] *Id.* at 36 (quoting E. Reusse, *Economic and Marketing Aspects of Post-Harvest Systems in Small Farmer Economies*, 25 FAO Monthly Bulletin of Agricultural Economics and Statistics, Sept. 1976).

Smaller-scale agricultural schemes not only reach the common farmers more easily, but also avoid the soil degradation typically associated with intensive modern irrigation projects. An interesting example that furthers both of these objectives is a traditional Mayan agro-forestry system that simply consists of "raised fields built of organic material and mud and separated by irrigation channels."[133] Such methods are labor-intensive and beneficial to the soil, and tend to be quite productive.[134]

Although the poor quality tropical soils that exist in many developing nations cannot support any form of modern farming, the banks have not given much consideration to more traditional schemes like the Mayan example discussed above.[135] As a result, many MDB-financed tropical agriculture projects have provided nothing of value to the borrowing nation, while destroying or replacing successful subsistence agro-forestry systems practiced by indigenous peoples.[136]

Other kinds of development assistance that have not received enough attention from the MDBs include funding for microenterprises, population and family planning programs, and land reform schemes. Microenterprising, or "microlending," is the practice of extending small, short-term loans, typically from fifty dollars to several hundred dollars, to poor Third World entrepreneurs who would otherwise have no access to credit.[137] Several private development organizations claim repayment rates approaching 100%, and tell of impoverished clients who used the loans to build successful small businesses.[138] For example, Accion International is a Cambridge, Massachusetts-based non-profit international development agency that boasts a microloan repayment rate of ninety-eight percent.[139] One Accion International client, Aaron Aguilar, was an unemployed Mexican factory worker who borrowed $100 to buy materials for making clay figurines in his back yard.[140] Mr. Aguilar and his wife obtained and repaid a total of five small loans over

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[133] Rich, *supra* note 27, at 741.

[134] *Id.*

[135] *Id.* at 692.

[136] *See id.*

[137] Brent Bowers, *Third-World Debt That is Almost Always Paid in Full*, WALL ST. J., June 7, 1991, at B2.

[138] *Id.* Microenterprising has become more popular at some non-private development agencies as well. For example, the 1990 microenterprise budget at the Agency for International Development (AID) was estimated at $114 million. *See id.*

[139] *Id.*

[140] *Id.*

six years and expanded their business to eighteen full-time employees.[141]

Another example comes from Cameroon, where a group of women used a $100 loan from the New York based microloan agency Trickle Up to breed and raise chickens and sell eggs.[142] This microenterprise was so successful that the women were able to open a second shop and expand into the tailoring business.[143] As these examples illustrate, microenterprise lending is attractive when compared to large-scale project lending because it directly targets poor individuals in developing nations. Furthermore, microenterprise lending is a less risky alternative to large-scale project lending because one failed microenterprise will not adversely affect the inhabitants and environment of an entire region.

V. U.S. Influence on the Size and Nature of MDB Development Projects

Although the MDBs are autonomous institutions, the United States can exert significant influence over MDB lending policies through its bank representatives.[144] The U.S. representatives to the MDBs can initiate discussions and make proposals at bank forums, and can consult with representatives from other countries.[145] The U.S. representatives also are responsible for the largest MDB voting shares.[146] Thus, the U.S. government can command significant influence over the MDBs through its representatives.

A. *The Role of Congress in Shaping MDB Development Policy*

As independent, autonomous organizations, the MDBs are not officially controlled by the United States or any other government.[147] Nevertheless, the United States exerts strong influence over the banks by virtue of its sizable voting share on the boards of directors and its status as the leading world financial and economic

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[141] *Id.* In addition to Accion International, many of the larger and better known private development organizations, such as CARE and Save the Children, have undergone dramatic shifts towards increased microlending in recent years. *Id.*

[142] *Id.*

[143] *Id.*

[144] *See* Jonathan E. Sanford, *U.S. Policy Toward the Multilateral Development Banks: The Role of Congress*, 22 Geo. Wash. J. Int'l L. & Econ. 1, 20 (1988).

[145] *See id.* at 20–25.

[146] Rich, *supra* note 27, at 718–19.

[147] *See* Sanford, *supra* note 17, at 3–8.

power.[148] Congress and the executive branch each play a role in determining U.S. policy toward the MDBs.[149]

While several executive agencies participate in formulating U.S. policy toward the MDBs, the most important are the Treasury Department, the State Department, and the Agency for International Development (AID).[150] The Treasury Department is responsible for issuing instructions to the U.S. representatives at the MDBs.[151] Congress, however, may pass legislation that obligates the Secretary of the Treasury to conform to congressional policies when giving instructions to the representatives.[152]

Although the executive agencies traditionally have exerted most of the control over day-to-day U.S. participation in the MDBs,[153] Congress has recently expanded its role by influencing U.S. MDB policy through legislation and control of the purse.[154] For example, Congress has passed numerous laws that establish U.S. policy toward the MDBs and govern how U.S. MDB representatives shall participate and vote in bank forums.[155] This legislation may take the form of a general statement of U.S. MDB policy, a requirement that the Administration report to Congress on MDB activity in a particularly important area, or a directive for the U.S. representative to propose, advocate, or oppose certain bank activities that Congress deems desirable or undesirable.[156]

In addition, Congress has used the power of the purse to exert influence over MDB operations by increasing or decreasing U.S. contributions, rescinding past authorizations, earmarking U.S. funds for particular uses, blocking actual disbursement of funds, or simply by considering one of these alternatives.[157] The United States has had some success at influencing policies at the banks

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[148] Rich, *supra* note 27, at 718.

[149] *See* Sanford, *supra* note 144, at 2–3.

[150] SANFORD, *supra* note 17, at 9–10. For a description of the interagency process, which brings together executive agencies with an interest in MDB affairs, see generally *id.* at 85–108.

[151] Sanford, *supra* note 144, at 20.

[152] *Id.*

[153] SANFORD, *supra* note 17, at 109.

[154] Sanford, *supra* note 144, at 16–17.

[155] *See* Rich, *supra* note 27, at 722; Sanford, *supra* note 144, at 19–20.

[156] Sanford, *supra* note 144, at 20–25.

[157] *See id.* at 25. For a discussion of the implications of these appropriations tactics and how Congress has attempted to use them to influence MDB policies, see generally *id.* at 34–62.

through the use of legislation and policy statements.[158] The following subsection analyzes these attempts by Congress to influence MDB lending policies.

B. *Legislation Governing U.S. Policy on the Size and Nature of MDB Development Projects*

Among the laws passed by Congress that affect U.S. policy toward the MDBs are several that specifically address either the need for development aid to target the poor more directly, or the importance of promoting smaller-scale, less capital-intensive project lending.[159] Congress has enacted legislation that adopts as U.S. policy the "basic needs" approach to development.[160] This statute directs U.S. MDB representatives to be mindful of the extent to which a loan program directly benefits the poor in the debtor country. Representatives must then advocate and vote for those projects that address basic human needs.[161] In addition, the Secretary of the Treasury must consult with bank representatives of other countries for the purpose of adopting international guidelines specifying that some portion of MDB funds will be channeled to benefit the neediest people.[162] Congress also directs the Secretary of the Treasury to request the MDBs to prepare assessments of the extent to which their lending practices have benefitted the poor.[163]

To promote this focus on the needy, Congress passed legislation stating that it shall be U.S. policy to advocate the allocation of MDB agricultural aid funds to projects that are concerned with the debtor country's domestic food needs and the alleviation of hunger.[164] Furthermore, this legislation obligates the Secretary of the Treasury to instruct the U.S. bank representatives to support MDB programs that are aimed at generating broad increases in income and em-

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[158] *See, e.g.*, Rich, *supra* note 27, at 719; Sanford, *supra* note 144, at 62–63; Plater, *supra* note 38, at 206–07.

[159] For a synopsis of statutes that Congress has passed to gain influence over U.S. policy toward the MDBs, see Sanford, *supra* note 144, app. at 92–113.

[160] Foreign Assistance Act of 1961 § 102, 22 U.S.C. § 2151–1(a) (1988). *See generally* STREETEN ET AL., *supra* note 62 (advocating the need to ensure that the basic needs of the poor are satisfied before resources are committed to other areas of development).

[161] International Financial Institutions Act § 701, 22 U.S.C. § 262d(b)(2) (1988).

[162] 22 U.S.C. § 262g-2 (1988).

[163] 22 U.S.C. § 262o(a)(1) (1988).

[164] 22 U.S.C. § 262g (1988).

ployment, especially among the rural poor.[165] The U.S. representatives also should support MDB activities that encourage debtor countries to diversify agriculturally and to avoid the economic risks of monoculture, such as debilitating price fluctuations.[166] In fact, congressional support for encouraging the MDBs to emphasize basic needs is so strong that Congress wrote a "basic needs" exception into the general U.S. policy opposing loans for countries that violate human rights or harbor hijackers.[167]

Moreover, federal legislation directs the U.S. MDB representatives to promote the use of appropriate light-capital technologies in MDB projects and to support funding increases for projects that incorporate such technologies.[168] Congress has identified the banks' reliance on inappropriate large-scale infrastructure projects as the major reason behind the lack of popular support for the MDBs in the United States.[169] The Senate Appropriations Committee recently cautioned:

> The MDB's do not enjoy a strong constituency among the American public, especially because of their record of funding large infrastructure projects which damage the environment and do little to address the root causes of underdevelopment. Unless the MDB's become much more responsive to the pressing global problems of poverty, environmental degradation, and uncontrolled population growth, the Committee's continued support for the MDB's cannot be taken for granted.[170]

In addition, Congress passed legislation that attempts to steer the MDBs away from large-scale, capital-intensive lending by encouraging less intrusive projects. For example, in the context of debt reduction schemes, U.S. representatives, particularly those to the World Bank, are directed to promote sustainable economic development projects that are specifically tailored to a Third World country.[171] Congress also has sought to promote MDB development programs such as small-scale economic activities (microenterprises) for the poor,[172] energy conservation in place of new energy proj-

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[165] 22 U.S.C. § 262n-1 (1988). For a discussion of how aid often fails to benefit the rural poor, see *supra* notes 63–70 and accompanying text.

[166] 22 U.S.C. § 262n-1 (1988).

[167] 22 U.S.C. § 262d(f) (1988).

[168] 22 U.S.C. § 262f (1988).

[169] S. REP. No. 519, 101st Cong., 2d Sess. 45 (1990).

[170] *Id.*

[171] 22 U.S.C.A. § 262*l*(e) (West 1990).

[172] 22 U.S.C. § 262p-2 (1988). *See generally* Bowers, *supra* note 137, at B2 (discussing recent trends in microenterprising).

ects,[173] and improved project procedures designed to inform all interested non-governmental organizations in the debtor country of any environmentally sensitive project.[174]

VI. Effectiveness of Current U.S. Legislation and Alternatives for Future U.S. Policy Towards the MDBs

The U.S. initiatives discussed above have achieved limited success in persuading the MDBs to adopt revised lending policies regarding large-scale, capital-intensive projects.[175] What real changes the banks have undergone are likely attributable, at least in part, to congressional pressure.[176] Professor Jonathan Sanford suggests, however, that the likelihood of success of a congressional initiative is simply a function of how compatible that initiative is with the MDBs' underlying rules and economic objectives.[177] The banks are envisioned as apolitical institutions, prohibited by their articles of agreement from interfering in internal affairs of borrower nations or basing lending decisions on any non-economic criteria.[178]

U.S. efforts to oppose MDB loans to countries that purchase sophisticated armaments or engage in drug trafficking or human rights violations, for example, may be considered political in nature and have had little effect on the amount of funding provided to those countries.[179] One failed U.S. effort involved attempts to discourage the International Development Association from lending to India until that country changed its nuclear policies.[180] Conversely, arguments over how to structure bank projects to best alleviate poverty and promote development are economic issues that are the proper subject of debate under the banks' rules. Nonetheless, whether the MDBs now wish to fund less intrusive, more beneficial projects will come out in the project voting process and will ultimately depend on the banks' true lending objectives.

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[173] 22 U.S.C. § 262*l* (1988).

[174] 22 U.S.C.A. § 262m-5(b)(5) (West 1990).

[175] *See* Rich, *supra* note 27, at 719; Sanford, *supra* note 144, at 62–63.

[176] *See* Sanford, *supra* note 144, at 63; Plater, *supra* note 38, at 206–07.

[177] Sanford, *supra* note 144, at 67–69.

[178] World Bank Articles of Agreement, *supra* note 19, art. IV, § 10; *see also* Sanford, *supra* note 144, at 69.

[179] Sanford, *supra* note 144, at 68. Sanford concludes that "most MDB member countries agree that these issues are serious, but consider them to be political or internal matters, and not primarily economic development issues." *Id.* at 69. In keeping with their articles of agreement, the banks generally prefer to avoid basing their decisions on anything other than economic criteria. *Id.*

[180] Sanford, *supra* note 144, at 68–69 & n.251.

As discussed above, much of the responsibility for large MDB development projects that fall short of expectations can be traced to the banks' failure to conduct meaningful cost-benefit analyses.[181] Comprehensive *social* cost-benefit analyses that take full account of all non-monetary project impacts must accompany future MDB projects, especially large, risky schemes.[182] These analyses must address the tendency for many economic costs associated with large projects to increase—and many benefits to decrease—over time.[183] Moreover, the greater engineering and financial risks that typically accompany a large, high-technology project must be disclosed and accounted for. This may be accomplished by multiplying expected gross costs and benefits by the probability, based on the performance of similar projects in the past, that such expectations will be achieved.[184]

Another problem that affects Congress' ability to influence the MDBs is the lack of access to bank information.[185] Because there are no requirements that the banks disclose internal documents, Congress must, to an extent, operate in the dark. Therefore, Congress should insist that the MDBs provide comprehensive reports on major projects and loan programs.[186] This disclosure requirement would allow Congress to exercise its influence in a more meaningful manner.

In addition, although the MDBs have finally realized that a variety of non-governmental organizations must participate in the development lending process, the banks are still wary of outside involvement.[187] The MDBs typically allow non-governmental organizations to play only a limited role.[188] Congress should reiterate its desire that the banks involve non-governmental organizations at a more fundamental level, especially during the project planning and appraisal stages.

As discussed above, congressional legislation attempts to push the MDBs in the right direction—away from projects that are detrimental to the people of the host country. Much of this legislation,

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[181] *See supra* notes 54–59 and accompanying text.

[182] *See* MIKESELL & WILLIAMS, *supra* note 5, at 50–51.

[183] *See id.* at 51.

[184] *Id.* at 52. "Thus, if on the basis of experience with similar projects there is a 25 percent probability that benefits will be only half those estimated in the feasibility study, projected benefits [for this project] should be reduced by at least 13 percent." *Id.*

[185] HELLINGER ET AL., *supra* note 50, at 151.

[186] *Id.* at 152.

[187] *See* Rich, *supra* note 36, at 49, 51.

[188] *See id.*

however, has been ineffective.[189] In the past, Congress has linked U.S. MDB contributions to bank policy reform.[190] If Congress is serious about the changes in MDB policy that are promoted by U.S. legislation, the Congressional Appropriations Committees must, on a regular basis, begin to link U.S. contributions directly to the banks' compliance with U.S. demands.

Using U.S. MDB contributions in this manner has been criticized by many, including U.S. administrations, as being too political.[191] Nevertheless, in the words of the Senate Appropriations Committee, U.S. MDB contributions "cannot be taken for granted."[192] Because the banks want to continue to receive appropriations from their largest contributor, they will implement the policy changes that so many are calling for. If Congress is unwilling to use the power of the purse to influence the banks' stance on large-scale, capital-intensive projects, it must be content to watch the enormous U.S. MDB contributions fund "development" projects that set back borrower nations even further.

VII. CONCLUSION

Despite fears that the use of U.S. MDB contributions to influence bank policy will politicize the role of donor countries or violate the banks' autonomy, Congress must tie future support to reforms in the MDB lending process. Congress should not earmark U.S. funds for particular projects or seek greater control over bank decision making. If, however, the MDBs continue to finance debilitating projects in the Third World, the enormous U.S. commitment might be more effective if contributed through AID and private development agencies such as CARE and Accion International. Congressional directives obligating the U.S. MDB representatives to cast their votes according to U.S. development policy already have inspired some change at the banks. By using the power of the purse, Congress can motivate needed changes in MDB policies regarding inappropriate and destructive large-scale development projects.

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[189] *See, e.g.*, Iain Guest, *The World Bank is Going for the Green*, WASH. POST, Oct. 13, 1991, at C3. The World Bank is presently funding a massive hydroelectric project in Thailand that may cause many economic, social, and environmental problems. *Id.*

[190] S. REP. No. 443, *supra* note 18, at 31. The Report states that "[o]ne of the reasons the [Senate Appropriations] Committee has reduced funding for the MDB's is due to the banks' failure to address the specific criticisms this Committee has made." *Id.*

[191] *See* Sanford, *supra* note 144, at 69–70 & n.255.

[192] S. REP. No. 519, *supra* note 169, at 45.